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Individual farm family incomes may drop substantially as the result of increased production in prospect for the next several years. Reductions in individual family food bills, however, probably will be slight.

by Gene Futrell and Arnold Paulsen

LIVESTOCK and poultry production is expected to increase sharply over the next several years. Feed grain supplies are large, and grain prices will be lower. And as livestock numbers increase, livestock prices at the farm level are going to drop sharply. The over-all effect: lower incomes for producers and lower prices for consumers—but not in the same degree or in the proportions you might expect.

How will a sharply increased livestock supply affect an individual family food budget and a farm family's income? This is what we're going to try to show in this article. The estimates used are based on many assumptions and are *not* predictions of actual prices and incomes. But they're based on known relationships and are realistic enough to indicate the relative benefits and consequences of any widespread increase in livestock supplies.

Projections have been made before for "all consumers" or for "all agriculture." We're trying here to put our estimates in terms of an individual consuming and producing family to outline the probable situation over the next 2 or 3 years.

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For Consumers . . .

Beef, pork, eggs, chicken and milk are the main food items produced in the Midwest. They make up about 45 percent of a typical family food budget. The estimated 1959 consumption of these products per person and for a family of four are shown below.

TABLE I. Yearly consumption per person and total consumption for a family of four of selected foods.

Food	Per-person consumption 1959[a]	Estimated consumption for family of four
Eggs	353	1,412
Pork, lbs.	66.5	266
Chicken, lbs.	30	120
Beef, lbs.	80	320
Milk, qts.	175	700

[a]Estimated; Agricultural Marketing Service, USDA.

The per-person rates for the current year were estimated by the USDA. They're likely to change somewhat over the next several years. Increases are probable on some of the items that will be in large supply.

Most people in the United States, however, aren't anxious to eat more food. They are interested in reducing their food bill. Therefore, we've tried to estimate the possible reduction in the food bill for a family of four who do *not* eat more food in total.

How much difference will lower farm prices make in the food bill? Probably not as much as either consumers or farmers think it should. The amount of the retail price decline resulting from a farm price decline will depend on how much the costs of processing and handling food products from farm to grocery cart increase in the next several years.

If the pay to handlers, processors and distributors (marketing margins) would remain constant in cents per pound at 1958 levels, the typical urban family food bill for beef, pork, chicken, eggs and milk would be likely to drop about 4½ percent from 1959 to 1960. It would continue to drop to nearly a 6-percent decrease by 1962, based on long-range production estimates and price forecasts for farm products.

But if the marketing margins continue to rise about the same as they have in the past 10 years, typical family food bills would decrease only around 3½ percent from 1959 to 1960 and would be down only about 2¾ percent by 1962.

Generally, the costs of handling food items change rather slowly in the short run. But they have increased for most items over the past 7-10 years. Of the items considered here, marketing margins for beef, pork and milk have shown a steady upward trend. Little trend has been apparent for eggs and chickens.

The decrease in retail food costs just mentioned is for items with a relatively "high farm value"—those items for which the farm-retail spread is relatively small. The farm-retail spread is the difference between the farm

value and the retail price. It is the sum of such costs as spoilage, shrinkage, processing, hauling, displaying, handling and packaging.

Meat and eggs have a fairly high proportion of their total consumer costs in farm value. Farm producers in 1958 received about 67 percent of the retail cost of eggs and about 57 percent of the retail cost of pork.

Wheat, in contrast, is a low farm value crop. The value of the wheat in a loaf of bread costing 22 cents is only about 3½ cents. So, even if wheat were free, the consumer cost for bread wouldn't drop more than 16 percent.

But livestock products are in a better position than wheat as far as the consumer is concerned. When the farm value of meat, milk and eggs drops because of increased supplies, the consumer may still get the benefit of a substantially lower retail price. Unfortunately for the farm producer, however, the price drop must be greater in proportion than the change in the supply. Urban families will buy enough more livestock products to eat up an increased supply, but meat would have to look like a real bargain.

For Producers . . .

We've just outlined how consumers stand to gain—though not greatly—from the prospects for increased livestock production over the next several years. What will be the counterpart effects on the income of a typical farm family during the same period?

The total number of hogs to be marketed in 1960 may be as much as 22 percent greater than the 1958 slaughter. This would be the picture if the 1960 spring pig crop is increased by roughly 5 percent over 1959. If so, hog prices will decline by about 37 percent from the 1958 level. The reason for the more-than-proportional drop in prices is because of consumer behavior. Francis Kutish in his Farm Outlook has been pointing out for several years now that an increase in hog supplies results in a proportionally greater drop in prices and that a decrease in supplies results in a more-than-proportional price increase.

Other farm prices are expected to decline also during the next several years. And some production costs are expected to increase, though the anticipated decline in corn prices will reduce the cost of purchased feed grains.

Table 2 shows the average income and expenses for a typical corn-hog farm in 1958. Both the income and expenses for the 1958 output are then projected for each of the years 1960-62 on the basis of current production prospects.

Right off, the 383 hogs produced are reduced in value by 37 percent from 1958 to 1960. Total farm income might drop only about 28 percent, however, since the prices of other products aren't expected to decline as much as those for hogs. The net income—the return to all labor, land and capital used on the farm—might drop by 65 percent, or to about a third of its 1958 level.

Why doesn't the operator of this "typical" farm increase his hog production? The typical corn-hog producer probably will. But we held his hog production constant to illustrate a point: To show that the consumer, in the face of current prospects, stands to gain a reduction (but only a slight one) in his food budget—if he eats the same amount. But the producer—if he produces the same amount—in the face of current prospects may suffer a two-thirds decline in income.

Individual farm families could avoid part of this decline in income by cutting some costs, making timely marketings, changing the farm organization, enlarging the farm or increasing hog production. Many will increase their output and sales. But the total result of large numbers doing this and increasing production would be to force hog prices even lower.

TABLE 2. Projected income for a typical corn-hog farm.[a]

	1958	1959	1960	1961	1962
No. of hogs produced	383	383	383	383	383
Value of hogs	$15,325	$12,120	$ 9,700	$10,500	$11,300
Value of grain sold	3,237	2,900	2,757	2,545	2,490
Other income	4,556	4,532	4,364	4,211	4,063
Total income	$23,118	$19,552	$16,821	$17,256	$17,853
Operating expense	$ 4,508	$ 4,598	$ 4,688	$ 4,778	$ 4,868
Fixed expenses	2,616	2,616	2,616	2,616	2,616
Feed bought	7,188	6,700	6,470	6,225	6,080
Total expenses	$14,312	$13,914	$13,774	$13,619	$13,564
NET INCOME	$ 8,806	$ 5,638	$ 3,047	$ 3,637	$ 4,289

[a]Assuming that output remains at the 1958 level on the farm.

All in All . . .

We want to emphasize again that these projections aren't predictions of actual costs, prices or income levels. They're intended to illustrate the probable relative effects on Iowa farm family incomes and on individual family food bills from the prospective increased farm output. And it appears that the consequences of large livestock-poultry-dairy production will fall heavily on producers through reduced individual net farm incomes.

Consumers in total could benefit considerably from the expected lower farm prices — particularly for the commodities discussed whose retail price includes a fairly high "farm value." But further increases in marketing costs — and these are likely—would eliminate much of the potential saving even on an "all consumers" basis.

The total value of the nation's livestock production might be reduced by 800 million dollars from 1958 to 1960. This is a potential saving for consumers in total and a reduction in net income to farmers. Since there are roughly 23 times as many consumers as farmers, however, the loss per farmer would be much greater than the savings per consumer.

Taken all together, individual farm family incomes may drop substantially as the result of lower farm prices following the increased production in prospect for the next several years. Reductions in individual family food bills, on the other hand, will probably be slight.